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Fred K. Konrad
Director
Federal Relations

September 12, 1995

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, NW
Room 222
Washington, DC 20554

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Re: **Ex Parte Statement**
Simplification of the Depreciation
Prescription Process Report and Order
Docket 92-296

Dear Mr. Caton:

Attached is a copy of a letter dated September 11, 1995 from Mr. Lawrence E. Strickling, Vice President, Public Policy, Ameritech, to Mr. Reed E. Hundt, Chairman, Federal Communications Commission. This letter should be included as part of the record of the above referenced docket.

Sincerely,

Fred Konrad
fka

Attachment

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Lawrence E. Strickling
Vice President
Public Policy

September 11, 1995

The Honorable Reed E. Hundt
Chairman
Federal Communications Commission
1919 M Street, N.W. Room 814
Washington, D.C. 20554

EX PARTE

RE: Simplification of the Depreciation Prescription Process
Report and Order, CC Docket No. 92-296, FCC 93-452,
released October 20, 1993

Dear Chairman Hundt:

True reform of interstate capital recovery regulation is required now. The streamlining of the depreciation rate setting process adopted in CC Docket 92-296 has not accomplished change commensurate with the changes occurring in the environment. The current prescription process is expensive, and is inconsistent with the development of competition and pure price cap regulation. Recent events present an opportunity for the Commission to achieve a significant increase in regulatory efficiency, and to further the goal of full competition in telecommunications.

On July 11, 1995 Bell South sent an ex parte letter to you requesting a prompt grant of its Petition for Reconsideration (PFR) filed in December 1993 in the above captioned docket. Ameritech requests the same prompt treatment on its PFR filed in the same docket at the same time, and notes that similar petitions were filed by at least nine LECs and the USTA. The common thread to all the PFRs filed in this docket is that the Price Cap Carrier Option (PCCO) is the sensible treatment to be afforded carriers which are regulated under price caps. The PFRs request that the Commission reconsider its opinion and grant the PCCO to all companies regulated for interstate purposes under price caps.

The PCCO, as proposed by the Commission, would permit those companies regulated under pure price caps to submit proposed depreciation rate changes to the FCC, along with a description of the financial reporting impacts of the proposed changes. The Commission, after public comment, would prescribe rates for each price cap company. As applied to AT&T, the Commission requires minimal data in support of new rates, but otherwise allows the PCCO to apply as proposed.

In its 1993 order, the FCC recognized that the PCCO is simpler and provides greater flexibility than any of the other options considered. In denying the PCCO to price cap LECs in 1993, the Commission cited concerns with unreasonable changes in depreciation rates limiting an LEC's sharing obligation under price cap regulation, and concerns that the competition faced by LECs

at the time would not permit granting the degree of flexibility provided by the PCCO. However, changes which have occurred over the last two years have made the PCCO even more appropriate for the LECs regulated under price caps than when it was proposed in 1993. For example:

- The Commission has recently adopted an updated version of price cap regulation which, among other changes, eliminates "sharing" for those companies adopting a 5.3% productivity offset. Ameritech was recently granted a waiver allowing the company to adopt the 5.3% offset and the "no sharing" option for the entire year of 1995. The elimination of "sharing" removes the last vestige of rate of return regulation and removes pricing as a justification for prescription of depreciation rates. While revision of the price cap rules is an "interim order", that fact does not preclude implementation of the PCCO for price cap companies. The Commission could also order the PCCO on an interim basis, with the requirement that companies maintain such data in property records as is necessary to create depreciation filings if price cap regulation is abandoned.

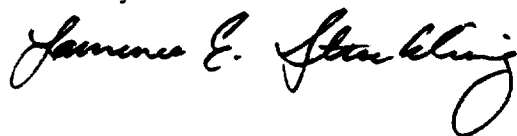
- Competition has increased dramatically in the Ameritech region over the last two years. All five states in the region are changing the regulatory model to allow full local service competition and competition for the provision of intraLATA toll services. Competitors for the local and intraLATA services include AT&T, Time Warner, MFS, Teleport, and MCI. In addition, Ameritech is seeking permission to become a competitor in the provision of interLATA and interstate services through our Customers First Plan and the DOJ trial within the region. This rapid growth of significant competition indicates that the concerns expressed in the 92-296 order should no longer apply.

- The five states in the Ameritech region have all adopted alternative regulation plans for Ameritech, regulating our operations on the basis of price rather than profits. Depreciation rate setting for intrastate purposes is either eliminated or truly simplified in every state.

- Last November, Ameritech discontinued use of FAS71 accounting standards used by regulated companies. This action resulted in a \$3.7 billion write down of the net fixed asset value. Ameritech assets for financial reporting purposes are now depreciated based on economically realistic lives.

For all of these reasons, Ameritech urges the Commission to act promptly on the petitions for reconsideration filed in this docket, and grant the Price Cap Carrier Option to those companies so regulated.

Sincerely,



Identical letters sent to each Commissioner and Kathleen Wallman

cc: Secretary's Office